

File

FRENCH PETROLEUM COMPANY
OF CANADA LTD.



Annual Report
1968



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FRENCH PETROLEUM COMPANY OF CANADA LTD.

DIRECTORS

H. J. CHAMPIN Paris, France
F. C. COPE Montreal, Quebec
J. D'EYSSAUTIER Paris, France
W. T. HAMILTON Calgary, Alberta
J. J. SAUCIER Calgary, Alberta
D. L. TORREY Montreal, Quebec
H. VAUTRIN Paris, France

OFFICERS

H. VAUTRIN *Chairman of the Board*
W. T. HAMILTON *President*
H. J. CHAMPIN *Vice-President*
J. H. LAHERRERE *Vice-President, Exploration*
S. B. LAING *Treasurer*
W. G. TUCKER *Secretary*

HEAD OFFICE

635 SIXTH AVENUE S.W., CALGARY 1, ALBERTA, CANADA

REGISTRARS

THE ROYAL TRUST COMPANY
Toronto Montreal
 Calgary

TRANSFER AGENTS

MONTREAL TRUST COMPANY
Toronto Montreal
 Calgary

EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE
MONTREAL STOCK EXCHANGE

AUDITORS

PRICE WATERHOUSE & CO.

ANNUAL MEETING

The Annual Meeting of Shareholders of the Company will be held at the head office of the Company, 635 Sixth Avenue Southwest, Calgary, Alberta, at 10:30 a.m. on Friday, May 2, 1969.



Ten Year

STATISTICAL REVIEW

OPERATIONS

Proven Oil Reserves (bbls.) 1968 35,771,142 1967 34,094,411 1966 33,104,751 1965 30,088,489 1964 24,309,501 1963 23,122,022 1962 20,235,993 1961 17,130,968 1960 17,788,945 1959 15,978,015

Probable Oil Reserves (bbls.) 1968 10,683,678 1967 10,555,002 1966 10,402,814 1965 9,922,122 1964 12,900,740 1963 11,801,123 1962 10,073,100 1961 12,916,125 1960 7,581,710 1959 6,385,067

Oil and Condensate Production (bbls./year)

1968 1,351,430 1967 1,114,339 1966 1,008,652 1965 988,907 1964 999,736 1963 1,046,494 1962 875,955 1961 722,583 1960 565,418 1959 469,571

Proven Gas Reserves (Millions of Cubic Feet)

1968 126,689 1967 96,980 1966 90,172 1965 93,385 1964 91,405 1963 68,841 1962 — 1961 — 1960 — 1959 —

Probable Gas Reserves (Millions of Cubic Feet)

1968 25,916 1967 23,743 1966 14,080 1965 13,994 1964 15,530 1963 1,949 1962 — 1961 — 1960 — 1959 —

Natural Gas Sales (Mcf/year)

1968 1,873,821 1967 2,041,339 1966 1,958,150 1965 2,037,366 1964 1,750,444 1963 326,978 1962 — 1961 — 1960 — 1959 —

Gross Land Holdings (acres)

1968 110,864,874 1967 8,957,427 1966 5,524,324 1965 3,915,662 1964 6,334,685 1963 5,860,210 1962 5,439,535 1961 4,584,975 1960 5,272,013 1959 5,248,768

Net Land Holdings (acres)

1968 8,424,542 1967 2,956,728 1966 2,340,990 1965 2,491,711 1964 4,165,070 1963 3,104,070 1962 2,312,815 1961 1,556,110 1960 1,533,641 1959 1,653,802

FINANCIAL

Gross Revenue from All Sources (after royalty and production costs)

\$ 2,911,111 1967 2,430,997 1966 2,159,437 1965 2,107,504 1964 2,079,687 1963 2,031,824 1962 1,696,262 1961 1,359,544 1960 1,090,425 1959 1,127,392

Net Cash Income

\$ 2,531,292 1967 1,877,211 1966 1,739,694 1965 1,662,902 1964 1,124,532 1963 1,098,893 1962 885,516 1961 598,012 1960 273,994 1959 253,798

FRENCH PETROLEUM COMPANY OF CANADA LTD.

Directors Report to the Shareholders

On behalf of the Board of Directors, I am pleased to present the twelfth Annual Report of French Petroleum Company of Canada Ltd.

As reflected by the statistical review on the opposite page, your Company continued its steady

rate of growth during the past year, achieving higher levels in most phases of its operations while maintaining an active program of land acquisition and exploration.

Exploration and Development

With the assistance of seismic data obtained from extensive geophysical operations conducted during the year, your Company drilled or participated in the drilling of a total of 23 wells in exploring and developing its properties in 1968. This program resulted in two gas wells, eight oil wells (one of which also found gas in two upper horizons), 10 abandonments and three wells still drilling at year end. These drilling operations enabled your Company to replace re-

serves produced during the year and, in addition, to effect moderate increases in its reserves of both gas and oil remaining at the end of the year.

Agreements with respect to unitization and pressure maintenance were negotiated during the year in two areas in which your Company has interests in oil production, resulting in formation of the Mitsue Gilwood Sand Unit No. 1 and the Nipisi Gilwood Unit No. 1. Your Company has minor interests in each of these Units.

Land

The land holdings of your Company and its subsidiary at the end of 1968 totalled 8,424,542 net acres, representing an increase of 185% over the comparative total at the end of the previous year. This substantial increase was primarily attributable to land acquisitions made during the past year in the following three areas:

Northwest Territories: Permits situated in the **Wrigley** area and comprising 369,162 acres, in which your Company has 100% interest, were acquired during 1968. Further north, in the **Liverpool Bay** area of the **Mackenzie Delta**, offshore permits comprising 173,721 acres and 468,009 acres, in which French Petroleum holds interests of 15% and 30% respectively, were acquired during the year.

Hudson Bay and James Bay: In the **Hudson Bay** area, the 12½% interest in onshore and offshore permit acreage formerly held by the Company's subsidiary (**Camerina Oil & Gas Ltd.**) was reduced to 6¼% by the sale of the remaining interest to another Company during 1968. Despite the sale of this interest, the net holdings of your Company's subsidiary in the Hudson Bay area were increased substantially during 1968 by participating in the acquisition of additional permits and by the earning of approximately three million net acres upon the completion of seismic work in which the Company has been participating, along with other Companies in this area, pursuant to the terms of the agreement with Atlantic Richfield Company. As a result,

the Company's total onshore and offshore holdings in the Hudson Bay area amounted to 4,440,060 net acres at the end of 1968, as compared to 637,570 net acres at the end of the previous year.

During 1968, your Company also participated in the acquisition of exploratory permits lying in the **James Bay** Lowlands of Ontario. These latter permits comprise a total of 3,203,569 acres in which French Petroleum owns an interest of 12½ %.

Labrador: As previously mentioned in the Company's Interim Report to the shareholders

covering the first half of 1968, your Company and Eastcan Exploration Ltd. (a wholly-owned subsidiary of Compagnie Francaise des Petroles) have together acquired a one-third interest in exploratory permits which now comprise close to 32 million gross acres located along the eastern Canadian coast of Labrador. Owing to the extremely high exploration costs anticipated in a project of this magnitude, your Company has limited its participation to 10% of the one-third acquired interest in these offshore permits which, in terms of net acreage, amounts to 1,059,946 acres.

FRENCH PETROLEUM COMPANY OF CANADA LTD.
and subsidiary company
TOTAL LAND HOLDINGS AT DECEMBER 31, 1968

	<i>Petroleum and Natural Gas Leases</i>		<i>Reservations, Permits and Licences</i>		<i>Total</i>	
	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>	<i>Gross</i>	<i>Net</i>
British Columbia	104,218	46,928	760,360	406,254	864,578	453,182
Alberta	755,373	369,004	1,065,684	435,314	1,821,057	804,318
Saskatchewan	26,125	9,213	2,360	1,180	28,485	10,393
Yukon	—	—	449,624	314,980	449,624	314,980
Northwest Territories	—	—	1,634,545	941,217	1,634,545	941,217
Ontario (James Bay)	—	—	3,203,569	400,446	3,203,569	400,446
Ontario (Hudson Bay)	—	—	986,560	61,660	986,560	61,660
Manitoba (Hudson Bay)	—	—	1,538,162	96,135	1,538,162	96,135
Federal (Hudson Bay Offshore)	—	—	68,516,251	4,282,265	68,516,251	4,282,265
Federal (Labrador Offshore) ..	—	—	31,822,043	1,059,946	31,822,043	1,059,946
	<u>885,716</u>	<u>425,145</u>	<u>109,979,158</u>	<u>7,999,397</u>	<u>110,864,874</u>	<u>8,424,542</u>

Production and Reserves

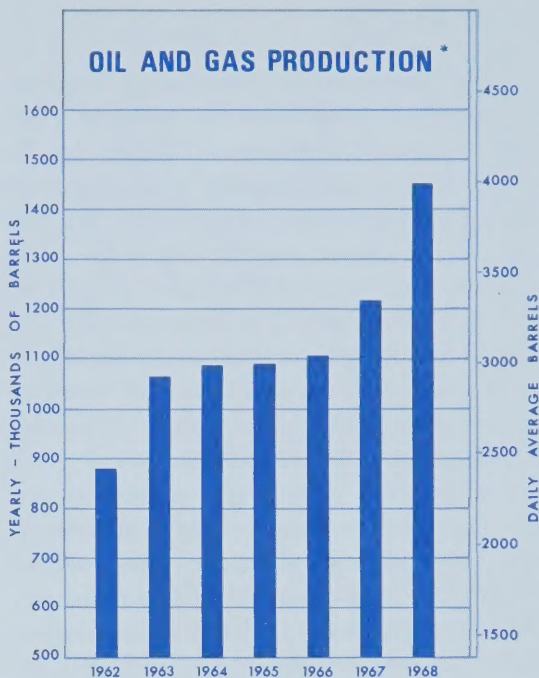
The total crude oil and condensate produced by your Company and its subsidiary during 1968 increased by 20% over that of the previous year, reaching a new high of 1,351,430 barrels. Natural gas sales declined slightly due to lower demand, averaging 5,120 Mcf per day as compared to 5,577 Mcf per day during the previous year. As shown in the accompanying graph, your

Company's combined production of oil, condensate and gas (expressed in barrels) averaged 3,948 barrels per day during 1968, representing an increase of 18½ % over the comparative 1967 average.

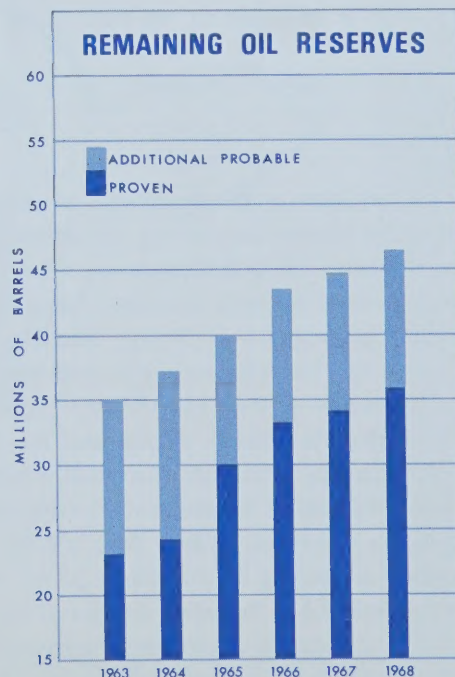
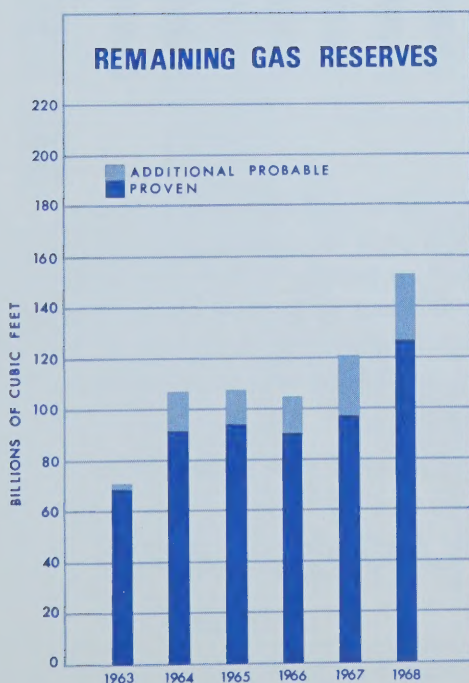
Drilling operations conducted on the Company's properties during the year, together with favourable results obtained from pressure main-

tenance operations in some of the unitized areas in which your Company has interests, resulted in a moderate increase in the Company's estimated proven oil reserves at the end of 1968 as compared to the corresponding 1967 figure. After providing for the past year's production of 1,351,430 barrels, your Company's estimated proven oil reserves at the end of 1968 amounted to 35,771,142 barrels with estimated additional probable reserves bringing the total to 46,454,820 barrels. This compares with a corresponding estimated aggregate of 44,649,413 barrels at the end of the previous year.

After making allowance for the year's production of 1,873,821 Mcf of gas, the Company's estimated proven developed gas reserves totalled 126.69 billion cubic feet, representing an increase of 30% over the comparative reserve estimate at the end of the previous year. Estimated additional probable reserves amounted to 25.92 billion cubic feet.



* NATURAL GAS PRODUCTION EQUATED TO CRUDE OIL AND CONDENSATE ON THE BASIS OF 20,000 CUBIC FEET PER BARREL.



Financial

The accompanying consolidated financial statements for 1968 reflect the results of a full year of operation by Camerina Oil & Gas Ltd. as a subsidiary of your Company, whereas in 1967 the consolidation applied only to the last four months. This factor, together with higher sales resulting from increased production obtained by both Companies, as well as lower operating and administrative costs, resulted in substantial increases in gross revenue, cash flow and net income during 1968 in comparison with corresponding figures for the previous year.

During 1968, gross revenue accruing to your Company and its subsidiary from all sources, after royalties and production costs, totalled \$2,911,111, an increase of 19.7% over the corresponding 1967 total. Cash flow from operations during the year increased by 35% to \$2,531,292 or 45 cents per share, compared to \$1,877,211 or 33½ cents per share in 1967. After making provision for depletion and depreciation charges, your Company's net income for the year was \$1,170,721 or 21 cents per share. This represents an increase of 78% over the previous year's net income.

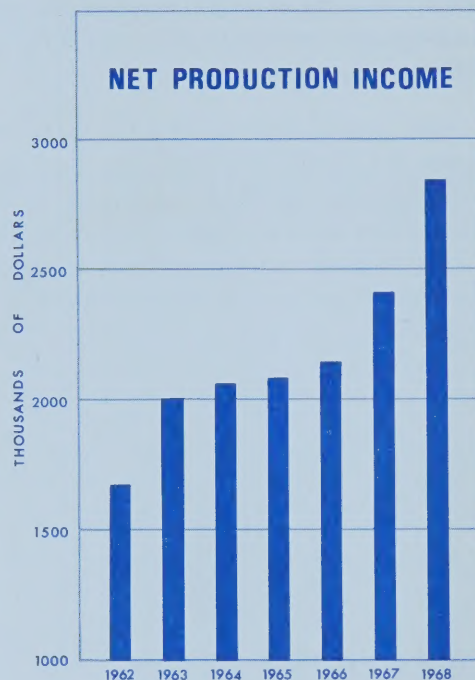
A short term loan of \$1.5 million was obtained at low cost at the end of the year,

General

In addition to the completion of previously scheduled seismic and drilling operations during the remaining winter drilling season, other operations planned by your Company for 1969 will include participation in further marine seismic work in the Labrador area and participation in the drilling of at least one offshore exploratory well during the summer months near the center of Hudson Bay. This exploratory well, which will be the first test of the sedimentary basin underlying the waters of Hudson Bay, will be commenced as soon as ice conditions permit, which is not expected to be before the end of July.

The Company's overall exploratory activities

placing your company in a strong financial position to meet its obligations during the early part of 1969 at which time expenditures are normally higher than at other periods of the year.



will be continued through 1969 at approximately the same level as in the previous year.

It is again my pleasure to express the appreciation of the Board of Directors for the effort and accomplishments of the staff, and to the shareholders for their support and interest during the past year.

Submitted on behalf of the Board of Directors,

President

March 15, 1969.

FRENCH PETROLEUM COMPANY OF CANADA LTD. LAND HOLDINGS



LAND HOLDINGS OF FRENCH
PETROLEUM COMPANY OF
CANADA LTD. AND SUBSIDIARY
AS OF DECEMBER 31, 1968.

FPC 12.5 %
FPC 3.33 %
CAMERINA 6.25 %

HUDSON BAY - LABRADOR AREA

NORTHWEST TERRITORIES





ARCTIC OCEAN



YUKON and NORTHWEST TERRITORIES

Auditors' Report

TO THE SHAREHOLDERS OF

FRENCH PETROLEUM COMPANY OF CANADA LTD.

We have examined the consolidated balance sheet of French Petroleum Company of Canada Ltd. and its subsidiary as at December 31, 1968 and the consolidated statements of income and deficit and source and disposition of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and disposition of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.

March 6, 1969.

Pricewaterhouse Co.

Chartered Accountants.

FRENCH PETROLEUM COMPANY OF CANADA LTD.

AND SUBSIDIARY COMPANY

Consolidated Statement of Income and Deficit

For the year ended December 31, 1968

(With comparative figures for 1967)

	1968	1967
Gross revenue from production, less royalties	\$ 3,213,696	\$ 2,702,812
Production expenses	362,934	282,694
	<u>2,850,762</u>	<u>2,420,118</u>
Investment income	60,349	10,879
	<u>2,911,111</u>	<u>2,430,997</u>
Operating departmental expenses	148,955	182,534
Administrative and general expenses	187,748	228,437
Share issue costs	41,141	100,730
Interest expense	1,975	42,085
	<u>379,819</u>	<u>553,786</u>
NET CASH INCOME	2,531,292	1,877,211
Depletion	1,198,710	999,776
Depreciation	171,587	135,320
Loss (Profit) on disposal of assets	(9,726)	83,716
	<u>1,360,571</u>	<u>1,218,812</u>
NET INCOME FOR THE YEAR (NOTE 6)	1,170,721	658,399
Deficit, beginning of year	9,516,966	10,175,365
Deficit, end of year	<u>\$ 8,346,245</u>	<u>\$ 9,516,966</u>

FRENCH PETROLEUM COMPANY OF CANADA LTD.

AND SUBSIDIARY COMPANY

Consolidated Statement of Source and Disposition of Working Capital

For the year ended December 31, 1968

(With comparative figures for 1967)

CURRENT A

Cash .
Securities, a
Accounts r
Short-term
Materials ar
Refundable
Other curre

CAPITAL AS

Petroleum
Less—Ac
Drilling and
Production
Less—Ac
Other capit
Less—Ac

Source of working capital:

	1968	1967
Net cash income	\$ 2,531,292	\$ 1,877,211
Sale of common shares	11,137	9,361,883
Proceeds from the sale of property	348,145	325,000
Proceeds from the sale of future production	1,500,000	—
	<u>4,390,574</u>	<u>11,564,094</u>

Disposition of working capital:

Petroleum and natural gas properties—

Purchase of properties	753,284	3,746,731
Drilling	1,110,924	579,148
Exploration	2,307,917	2,402,786
Lease and reservation rentals	435,634	440,015
	<u>4,607,759</u>	<u>7,168,680</u>

Production and other equipment	230,665	584,939
Work in progress—net change	472,479	84,508
Payment of bank loan	—	472,000
Payment of advance from parent company	—	500,000
	<u>5,310,903</u>	<u>8,810,127</u>

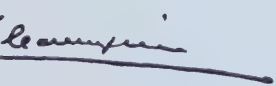
Increase (Decrease) in working capital during year	(920,329)	2,753,967
Working capital, beginning of year	2,914,586	160,619
Working capital, end of year	<u>\$ 1,994,257</u>	<u>\$ 2,914,586</u>

(With comparative figures for 1967)

OF CANADA LTD.

ET at December 31, 1968

LIABILITIES AND CAPITAL

	1968	1967
LIABILITIES:		
payable and accrued	\$ 709,966	\$ 722,727
arent company	68,076	—
nt of partner's share of costs	67,908	—
	<u>845,950</u>	<u>722,727</u>
PRODUCTION INCOME (Note 3)	<u>1,500,000</u>	<u>—</u>
LDERS' OWNERSHIP:		
ock—(Note 4)		
n shares of no par value—		
orized—6,500,000 shares		
d—5,569,457 shares	46,276,902	46,265,765
er statement attached	8,346,245	9,516,966
	<u>37,930,657</u>	<u>36,748,799</u>
D ON BEHALF OF THE BOARD:		
 Director		
 Director		
	<u>\$40,276,607</u>	<u>\$37,471,526</u>

FRENCH PETROLEUM COMPANY OF CANADA LTD.
AND SUBSIDIARY COMPANY

Notes to Financial Statements

December 31, 1968

1. CONSOLIDATED FINANCIAL STATEMENTS:

The consolidated financial statements for 1968 include the accounts of **Camerina Oil & Gas Ltd.**, a wholly owned subsidiary. The comparative figures for the previous year include the operations of the subsidiary from the date of acquisition, September 1, 1967. On consolidation the cost of the shares over the book value of the net assets of the subsidiary at acquisition is included with the cost of petroleum and natural gas properties.

2. ACCOUNTING POLICY:

The full cost method of accounting for petroleum and natural gas properties has been followed by the Company since January 1, 1965 and by its subsidiary from the date of acquisition. Under this method all amounts expended with respect to the acquisition, retention, exploration for and development of oil and gas properties including exploration overhead have been capitalized, whether productive or unproductive, as representing the cost of the companies' reserves. Proceeds of disposals ordinarily will be applied in full against such costs.

Provision for depletion has been computed on the unit of production method based upon total costs in relation to overall estimates of proven reserves of oil and gas.

Production equipment has been accounted for separately and depreciated by the straight-line method at rates designed to amortize costs over the estimated service life of the assets.

3. DEFERRED PRODUCTION INCOME:

In December 1968 the Company sold future production for \$1,500,000 representing a portion of its interest in the output from certain oil properties. Revenue resulting from the sale has been deferred and will be reflected in income as the oil is produced. It is expected that the production payment will be discharged in approximately one year.

4. CAPITAL STOCK:

Changes in issued capital stock during the year are summarized below:

	<i>Number of shares</i>	<i>Amount</i>
Outstanding at December 31, 1967	5,566,707	\$46,265,765
Issued for cash upon exercise of stock options at a price of \$4.05 per share by employees, none of whom are directors or officers	2,750	11,137
Outstanding at December 31, 1968	5,569,457	\$46,276,902

An option to purchase 2,500 common shares of the Company at a price of \$4.05 per share until June 30, 1969 is held by an employee, who is not a director or officer of the Company.

5. CONTINGENCY:

The Company has issued to and deposited with the Government of Canada an aggregate of \$118,532 of non-interest bearing demand notes to be held as security for the performance of work obligations in respect of certain exploratory rights.

6. INCOME TAXES:

For income tax purposes the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts. For 1968 the companies do not intend to claim capital cost allowances in excess of recorded depreciation but will claim other deductions in amounts sufficient to eliminate taxable income. After such claims approximately \$25,000,000 of drilling, exploration and lease acquisition costs and \$3,300,000 of undepreciated capital costs will remain to be carried forward and applied against future taxable income.

The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants has recommended the income tax allocation method of accounting effective for fiscal years commencing on or after January 1, 1968 whereby the income tax provision is based on the income reported in the accounts. However, management does not consider it appropriate to apply this method to differences in the timing of deductions for tax and accounting purposes with respect to drilling, exploration and lease acquisition costs; this view conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

If the tax allocation method had been followed for all timing differences between taxable income and reported income deferred income taxes of \$585,000 (\$365,000 in 1967) would have been provided. On an accumulated basis to December 31, 1968 the consolidated balance sheet would have included as an asset a deferred income tax charge of \$860,000 as a result of deductions for tax purposes being less than the related amounts charged off in the accounts.

7. STATUTORY INFORMATION:

For the year ended December 31, 1968 fees of directors not holding salaried positions amounted to \$3,750 while the total remuneration of directors holding salaried positions amounted to \$70,848.

